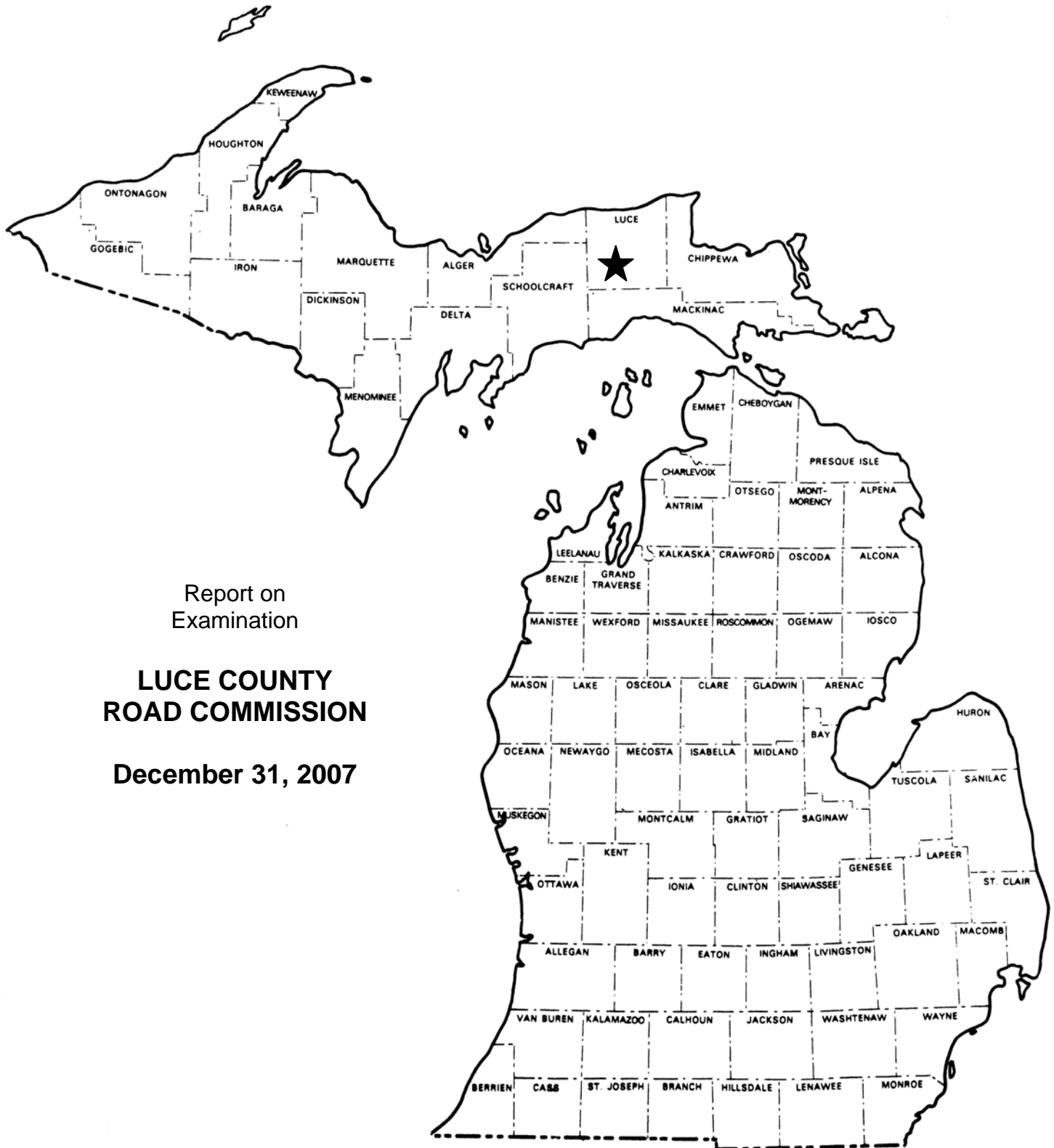


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**LUCE COUNTY
ROAD COMMISSION**

December 31, 2007

LUCE COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Robert Ottenhoff
Chairperson

Peter K. Anderson
Vice Chairperson

Mike Aho
Member

Stan Ronquist
Engineer/Manager

Gary Moulton
Office Manager

COUNTY POPULATION--2000
7,024

STATE EQUALIZED VALUATION--2007
\$259,846,370



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 13, 2008

Luce County Road Commission
Board of County Road Commissioners
P.O. Box 401
423 West McMillan Avenue
Newberry, Michigan 49868

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Luce County Road Commission, a component unit of Luce County, Michigan, as of and for the year ended December 31, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Luce County Road Commission as of December 31, 2007, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2008 on our consideration of the Luce County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 and the budget comparison information included in exhibits G and H are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2008 on our consideration of the Luce County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprises the Luce County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

LUCE COUNTY ROAD COMMISSION

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LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Luce County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 4.62% or \$304,596 from \$6,597,359 to \$6,901,955 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$143,500 due to the increase in local funding and decrease in the structure of health insurance. The investment in capital assets-net of related debt increased by \$161,097 which was primarily due to the road construction job on County Road 403 and the new bridge on County Road 414.

Net assets as of year ended December 31, 2007, are as follows:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>Percentage</u>
Current and Other Assets	\$ 1,437,770	\$ 1,446,559	\$ 8,789	0.61%
Net Capital Assets	<u>5,708,623</u>	<u>5,869,720</u>	<u>161,097</u>	<u>2.82%</u>
Total Assets	<u>7,146,393</u>	<u>7,316,279</u>	<u>169,886</u>	<u>2.38%</u>
Current Liabilities	184,110	100,262	(83,848)	-83.63%
Noncurrent Liabilities	<u>364,924</u>	<u>314,062</u>	<u>(50,862)</u>	<u>-16.19%</u>
Total Liabilities	<u>549,034</u>	<u>414,324</u>	<u>(134,710)</u>	<u>-24.54%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	5,708,624	5,869,720	161,096	2.82%
Restricted	<u>888,735</u>	<u>1,032,235</u>	<u>143,500</u>	<u>16.15%</u>
Total Net Assets	<u><u>\$ 6,597,359</u></u>	<u><u>\$ 6,901,955</u></u>	<u><u>\$ 304,596</u></u>	<u><u>4.62%</u></u>

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2007 are as follows:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Program Revenue				
Charges for Services	\$ 758,769	\$ 685,645	\$ (73,124)	-9.64%
Operating Grants and Contributions	2,921,145	1,793,594	(1,127,551)	-38.60%
Capital Grants and Contributions		712,534	712,534	100.00%
General Revenue				
Gain on Equipment Disposal	400	-	(400)	-100.00%
Total Revenue	<u>3,680,314</u>	<u>3,191,773</u>	<u>(488,541)</u>	<u>-13.27%</u>
Expenses				
Primary Road Maintenance	983,914	978,954	(4,960)	-0.50%
Local Road Maintenance	799,511	660,880	(138,631)	-17.34%
State Trunkline Maintenance	639,431	600,081	(39,350)	-6.15%
Net Equipment Expense	158,966	85,223	(73,743)	-46.39%
Net Administrative Expense	217,553	212,905	(4,648)	-2.14%
Infrastructure Depreciation	218,532	274,064	55,532	25.41%
Non-Road Related Projects	-	93,555	93,555	100.00%
Compensated Absences	5,318	(18,485)	(23,803)	-447.59%
Total Program Expenses	<u>3,023,225</u>	<u>2,887,177</u>	<u>(136,048)</u>	<u>-4.50%</u>
Changes in Net Assets	<u>\$ 657,089</u>	<u>\$ 304,596</u>	<u>\$ (352,493)</u>	<u>-53.64%</u>
Ending Net Assets	<u>\$6,597,359</u>	<u>\$ 6,901,955</u>	<u>\$ 304,596</u>	<u>4.62%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2007, the fund balance of the General Operations Fund increased \$125,015 Total operating revenues were \$3,191,773, a decrease of \$488,541 as compared to last year. This change in revenues resulted primarily from a decrease in Federal Surface Transportation Funds, State MTF revenues and State grants.

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total expenditures were \$3,066,759, a decrease of \$659,307 as compared to last year. This change in expenditures is primarily the decrease in infrastructure capital outlay.

	2006	2007	Variance	%
Revenues				
Licenses and Permits	\$ 3,470	\$ 3,235	\$ (235)	-6.77%
Federal Grants	652,757	343,513	(309,244)	-47.38%
State Grants	2,233,370	2,058,332	(175,038)	-7.84%
Contributions From Local Units		69,957	69,957	100.00%
Charges for Services	757,324	651,490	(105,834)	-13.97%
Interest and Rents	32,993	34,326	1,333	4.04%
Other Revenue	400	30,920	30,520	7630.00%
Total Revenues	<u>3,680,314</u>	<u>3,191,773</u>	<u>(488,541)</u>	<u>-13.27%</u>
Expenditures				
Public Works	3,682,473	3,064,900	(617,573)	-16.77%
Net Capital Outlay	<u>43,593</u>	<u>1,858</u>	<u>(41,735)</u>	<u>-95.74%</u>
Total Expenditures	<u>3,726,066</u>	<u>3,066,758</u>	<u>(659,308)</u>	<u>-17.69%</u>
Excess of Expenditures Over Revenues	<u>(45,752)</u>	<u>125,015</u>	<u>170,767</u>	<u>373.24%</u>
Fund Balance--Beginning	<u>1,153,655</u>	<u>1,107,903</u>	<u>(45,752)</u>	<u>-3.97%</u>
Fund Balance--Ending	<u><u>\$ 1,107,903</u></u>	<u><u>\$ 1,232,918</u></u>	<u><u>\$ 125,015</u></u>	<u><u>11.28%</u></u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

LUCE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The final revenue budget for 2007 was higher than the original budget by \$300,900. Increases were due to increases in State Trunkline maintenance due to snow maintenance and increases in other State maintenance programs. The actual revenues were \$3,827 less than the final amended budget.

The final expenditure budget was \$185,300 less than the original budget, there were decreases in local and primary expenditures due to less maintenance. The actual expenditures exceeded the budget by \$89,058, due to unexpected nonroad related projects.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2007, the Road Commission had \$5,869,720 invested in capital assets as follows:

	2006	2007	Total Percentage Change 2006-2007
Capital Assets Not Being Depreciated			
Infrastructure--Land	\$ 39,182	\$ 39,182	0.00%
Infrastructure--Land Improvements	117,709	117,709	0.00%
Subtotal	156,891	156,891	0.00%
Capital Assets Being Depreciated			
Land Improvements	38,460	38,460	0.00%
Buildings	862,484	862,484	0.00%
Road Equipment	4,371,909	4,371,909	0.00%
Shop, Office and Engineer Equipment	297,918	295,823	-0.70%
Infrastructure	5,565,492	6,173,637	10.93%
Subtotal	11,136,263	11,742,313	5.44%
Total Capital Assets	11,293,154	11,899,204	5.37%
Total Accumulated Depreciation	(5,584,531)	(6,029,484)	7.97%
Total Net Capital Assets	\$ 5,708,623	\$ 5,869,720	2.82%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$610,002. The infrastructure recorded during 2007, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

LUCE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Various Resurfacing Projects and Related Land/Right-of-Way	\$ 608,145
Computer Equipment	<u>1,857</u>
Total Additions	<u><u>\$ 610,002</u></u>

There were no installment purchase agreements entered into during 2007. All the equipment was acquired with Road Commission funds.

Debt

The Road Commission currently experiences a relatively debt free status. The Road Commission currently has long-term debt in the amount of \$200,683, a decrease of \$18,485 from the prior year, which represents compensated absences payable at December 31, 2007.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 57% of its revenues from the fuel tax collected. The economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission is considering reducing labor costs through attrition and adjustments to health care insurance to offset revenue declines.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Luce County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Luce County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Luce County Road Commission administrative offices at: 423 West McMillan Avenue, Newberry, MI 49868, (906) 293-5741.

LUCE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

ASSETS

Cash	\$ 436,225
Investments	330,948
Accounts Receivable	
Sundry Accounts	97
State--Trunkline Maintenance	85,553
Michigan Transportation Fund	244,882
Inventories	
Road Materials	136,903
Equipment Parts and Materials	115,320
Prepaid Expenses	96,631
Capital Assets (Net of Accumulated Depreciation)	<u>5,869,720</u>
Total Assets	<u>7,316,279</u>

LIABILITIES

Current Liabilities	
Accounts Payable	23,389
Due to State of Michigan	10
Due to Employees	1,031
Accrued Liabilities	74,827
Deferred Revenue	
Forest Road Funds	1,005
Noncurrent Liabilities	
Advances From State	113,379
Vested Employee Benefits Payable	<u>200,683</u>
Total Liabilities	<u>414,324</u>

NET ASSETS

Investment in Capital Assets--Net of Related Debt	5,869,720
Restricted for County Roads	<u>1,032,235</u>
Total Net Assets	<u>\$ 6,901,955</u>

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 978,954
Local Road Maintenance	660,880
State Trunkline Maintenance and Nonmaintenance	600,081
Net Equipment Expense	85,223
Net Administrative Expense	212,905
Infrastructure Depreciation	274,064
Compensated Absences	(18,485)
Other Non Road Related Projects	93,555
	<hr/>
Total Program Expenses	2,887,177
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	3,235
Charges for Services	659,021
Contributions--Private Sources	23,389
Operating Grants and Contributions	
Michigan Transportation Funds	1,759,268
Investment Earnings	34,326
Capital Grants and Contributions	
Federal Grants	343,513
State Grants	299,064
Contributions From Local Units	69,957
	<hr/>
Total Program Revenue	3,191,773
	<hr/>
Net Program Revenue	304,596
	<hr/>
General Revenue	
Gain on Equipment Disposal	-
	<hr/>
Total General Revenue	-
	<hr/>
Change in Net Assets	304,596
	<hr/>
Net Assets	
Beginning of Year	6,597,359
	<hr/>
End of Year	\$ 6,901,955
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2007

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 436,225
Investments	330,948
Accounts Receivable	
State Trunkline Maintenance	85,553
Michigan Transportation Fund	244,882
Sundry Accounts	97
Inventories	
Road Materials	136,903
Equipment Parts and Materials	115,320
Prepaid Expenses	<u>96,631</u>
Total Assets	<u><u>\$ 1,446,559</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 23,389
Accrued Liabilities	74,827
Due to Employees	1,031
Due to State	10
Advances	
Trunkline Equipment Purchase	65,061
Trunkline Maintenance	48,318
Deferred Revenue--Forest Road	<u>1,005</u>
Total Liabilities	<u>213,641</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	252,223
Unreserved and Undesignated	<u>980,695</u>
Total Fund Equities	<u>1,232,918</u>
Total Liabilities and Fund Equities	<u><u>\$ 1,446,559</u></u>

The Notes to Financial Statements are an integral part of this statement.

**LUCE COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2007**

EXHIBIT D

Total Governmental Fund Balance	\$1,232,918
---------------------------------	-------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,869,720
---	-----------

The long-term liability for vested employee benefits payable not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(200,683)</u>
--	------------------

Net Assets of Governmental Activities	<u><u>\$6,901,955</u></u>
---------------------------------------	---------------------------

The Notes to Financial Statements are an integral part of this statement.

**LUCE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2007**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Permits	\$ 3,235
Federal Grants	343,513
State Grants	2,058,332
Contributions From Local Units	69,957
Charges for Services	651,490
Interest and Rents	34,326
Other Revenue	<u>30,920</u>
Total Revenues	<u>3,191,773</u>
Expenditures	
Public Works	3,064,900
Capital Outlay	<u>1,858</u>
Total Expenditures	<u>3,066,758</u>
Excess of Revenues Over (Under) Expenditures	<u>125,015</u>
Fund Balance--January 1, 2007	<u>1,107,903</u>
Fund Balance--December 31, 2007	<u><u>\$ 1,232,918</u></u>

The Notes to Financial Statements are an integral part of this statement.

**LUCE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$125,015

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period.

161,096

Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense)

18,485

Change in Net Assets of Governmental Activities

\$304,596

The Notes to Financial Statements are an integral part of this statement.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Luce County Road Commission, which was established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or property taxes without the county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Luce County Road Commission, a discretely presented component unit of Luce County, and include the Road Commission Operating Fund.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Luce County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Luce County Road Commission as assets with an initial individual cost of more \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, Michigan Compiled Laws (MCL) 141.421 which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of county road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The board has authorized the chief administrative officer to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Total actual 2007 expenditures exceeded the total amended budget by a total of \$89,059.

Expenditures by activity that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
Capital Outlay--Net	\$(173,000)	\$(172,984)	\$ (16)
Non Road Related Projects		93,555	(93,555)

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS

MCL 129.91 authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated six financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$436,125
Investments	330,948
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$767,173</u></u>

The bank balance of the Road Commission's deposits is \$459,354, of which \$220,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to 2a7-like investment pools. Investments made under the 2a7-like investment pools are excluded from reporting the following: interest rate risk information, concentration of credit risk, custodial risk and credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to interest rate risk.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2007, the Road Commission had the following investments:

	<u>Reported Amount (Fair Value)</u>	<u>Credit Risk Rating</u>	<u>Credit Risk Rating By</u>
Investments (2a-7 like Investment Pools)			
Federal Home Loan Mtg. Corp	\$100,014	not rated	
Governmental Money Market Investment Pool	115,279	not rated	
MBIA CLASS--Municipal Investment Pool	<u>115,655</u>	AAA-V1	Fitch
Total Primary Government	<u><u>\$330,948</u></u>		

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 39,182			\$ 39,182
Infrastructure Land Improvements	117,709			117,709
Subtotal	156,891	\$ -	\$ -	156,891
Capital Assets Being Depreciated				
Land Improvements	38,460			38,460
Buildings	862,484			862,484
Road Equipment	4,371,909			4,371,909
Shop Equipment	234,331			234,331
Office Equipment	44,197			44,197
Engineers' Equipment	19,390	1,857	3,952	17,295
Infrastructure--Bridges	1,023,420	441,009		1,464,429
Infrastructure--Roads	4,542,072	167,136		4,709,208
Total	11,136,263	610,002	3,952	11,742,313
Less Accumulated Depreciation				
Land Improvements	15,859	1,281		17,140
Buildings	325,285	29,168		354,453
Road Equipment	4,059,079	134,934		4,194,013
Shop Equipment	197,553	7,943		205,496
Office Equipment	41,441	1,329		42,770
Engineers' Equipment	19,390	186	3,952	15,624
Infrastructure--Bridges	51,949	15,605		67,554
Infrastructure--Roads	873,975	258,459		1,132,434
Total	5,584,531	448,905	3,952	6,029,484
Net Capital Assets Being Depreciated	5,551,732	610,002	448,905	5,712,829
Total Net Capital Assets	<u>\$ 5,708,623</u>	<u>\$ 610,002</u>	<u>\$ 448,905</u>	<u>\$5,869,720</u>

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$134,934
Indirect Equipment	30,506
Net Administrative Expenses	
Building	8,072
Office Equipment	1,329
Infrastructure Depreciation Expense	<u>274,064</u>
Total Depreciation Expense	<u><u>\$448,905</u></u>

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	Balance 01/01/07	Additions (Reductions)	Balance 12/31/07
Vested Employee Benefits			
Vacation Benefits	\$ 70,274	\$ (1,650)	\$ 68,624
Sick Leave Benefits	<u>148,894</u>	<u>(16,835)</u>	<u>132,059</u>
Totals	<u><u>\$219,168</u></u>	<u><u>\$ (18,485)</u></u>	<u><u>\$200,683</u></u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. New employees are eligible for vacation benefits after 1 year of service, and vacation benefits accrue on a biweekly pay period basis thereafter. Employees may accumulate up to a maximum of 2 years vacation benefits.

Sick Leave Benefits

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Employees hired prior to July 1, 1981, upon voluntary termination with ten working days notice, retirement, or death of an employee in the service of the Road Commission, shall be paid for 100% of any accumulated unused sick leave up to a maximum of 160 days.

Employees hired after July 1, 1981 will receive payment for 1/2 of their unused accumulated sick leave up to a maximum of 60 days, upon retirement only.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Luce County Road Commission for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE H--EMPLOYEE RETIREMENT PLAN

Description of Plan and Plan Assets

The Luce County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. For all groups, the service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at actuarially determined rates; the current rates for the general, engineer/manager, management, and employees hired after September 1998 are 31.83%, 18.56%, 20.43% and 12.63%, respectively, at December 31, 2006.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEE RETIREMENT PLAN (Continued)

Annual Pension Cost

During the calendar year ended December 31, 2006, the Road Commission's contributions totaling \$229,871 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Ended December 31</u>	<u>Pension Cost (APC)</u>	<u>Of APC Contributed</u>	<u>Pension Obligation</u>
2004	\$ 172,847	100%	\$0
2005	192,468	100%	\$0
2006	229,871	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 4,013,444	\$6,331,712	\$ 2,318,268	63%	\$ 860,551	269%
12/31/05	4,120,682	6,728,902	2,608,220	61%	840,471	310%
12/31/06	4,333,860	7,297,269	2,963,409	59%	883,805	335%

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan. It authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to general liability coverage, auto liability coverage, property insurance coverage, stop-loss insurance protections, claims administration, risk management, and loss control services pursuant to Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions, bodily injury, property damage, and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2007, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE J--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

LUCE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Luce County Road Commission provides post-employment health care and cancer insurance benefits to all retired employees and/or their spouse and life insurance benefits for the retiree only. The benefits are provided in accordance with Article 34 (a), (b) and (c) of the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the Road Commission agrees to pay for the supplemental health insurance coverage for both.

For employees hired prior to September 1, 1998, the Road Commission agrees to pay the premium for each employee and spouse at time of retirement. Upon eligibility for Medicare, the employer agrees to pay for Blue Cross/Blue Shield supplemental coverage for both the retiree and his spouse.

For all employees hired after September 1, 1998, the Road Commission agrees to pay 4% of the premium for each employee at time of retirement for each year of service said employee has spent with the Road Commission. Said employee may elect to have coverage provided to his spouse at the employee's expense.

In order for an employee to be eligible to health care benefits at retirement, the employee must retire from active service with the Road Commission at age 60 with 10 years of service or at age 55 with 25 years of service.

During 2007, the Road Commission amended its post-employment benefit plan by providing a lump sum payment to each retiree upon attainment of age 65. Twenty one retirees qualified for this benefit amounting to \$77,965. Additionally, 9 retirees and/or spouses continue to be eligible for continuing benefits between the ages of 55 and 65 at a cost of \$92,316. Total cost of benefits provided for retirees was \$170,281. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

NOTE L--STATE TRUNKLINE MAINTENANCE REVENUE

The \$50,259 difference between the State Trunkline maintenance revenues of \$642,745 and expenditures of \$592,486 is primarily due to the Michigan Department of Transportation (MDOT) State Trunkline audits for the period of January 1, 2005 through December 31, 2005.

LUCE COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2007

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 3,400	\$ 3,300	\$ 3,235	\$ (65)
Federal Grants				
Surface Transportation Program	20,000	17,000	16,627	(373)
Railroad Crossing	-	24,000	23,389	(611)
Critical Bridge	300,000	304,000	303,497	(503)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,150,000	1,130,500	1,130,291	(209)
Local Road	450,000	447,500	447,120	(380)
Snow Removal	175,000	172,000	171,857	(143)
Critical Bridge	60,000	57,000	56,905	(95)
Economic Development Funds				
Rural Primary D	5,000	4,500	4,487	(13)
Forest Funds (E)	60,000	215,000	214,283	(717)
State Railroad Crossing	-	24,000	23,389	(611)
Contributions--Local Units				
Townships	70,000	70,000	69,957	(43)
Charges for Services				
State Trunkline Maintenance	510,000	643,000	642,745	(255)
State Trunkline Non-Maintenance	50,000	8,000	7,607	(393)
Salvage and Material Sales	2,500	1,200	1,138	(62)
Interest and Rents				
Interest Earned	22,000	33,000	34,326	1,326
Other Revenue				
Contributions From Private Sources	-	24,000	23,389	(611)
Other	6,800	7,600	7,531	(69)
Total Operating Revenue	2,894,700	3,195,600	<u>\$ 3,191,773</u>	<u>\$ (3,828)</u>
Fund Balance--January 1, 2007	1,067,313	1,067,313		
Total Budget	<u>\$ 3,962,013</u>	<u>\$ 4,262,913</u>		

LUCE COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2007

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements		\$ 27,500	\$ 27,222	\$ 278
Routine and Preventive Maintenance	\$ 1,020,000	974,000	973,402	598
Local Road				
Preservation/Structural Improvements	140,000	140,000	139,914	86
Routine and Preventive Maintenance	753,000	654,000	653,798	202
Primary Road Structure				
Preservation/Structural Improvements	400,000	441,500	441,009	491
Routine and Preventive Maintenance		7,000	5,552	1,448
Local Road Structures				
Routine and Preventive Maintenance		7,100	7,082	18
State Trunkline Maintenance	510,000	593,000	592,486	514
State Maintenance--Other	50,000	7,600	7,595	5
Equipment Expense--Net	100,000	86,000		
Direct			\$ 476,293	
Indirect			283,497	
Operating			267,581	
Less: Equipment Rentals			(942,148)	777
Administrative Expense--Net	220,000	213,000		
Administrative Expense			296,945	
Less: Handling Charges			(15,923)	
Overhead--State Trunkline			(68,118)	96
Capital Outlay--Net	(30,000)	(173,000)		
Capital Outlay			1,858	
Less: Depreciation Credits			(174,842)	
Equipment Retirements			-	(16)
Non Road Related Projects			93,555	(93,555)
Total Expenditures	3,163,000	2,977,700	\$ 3,066,758	\$ (89,058)
Fund Balance--December 31, 2007	799,013	1,285,213		
Total Budget	\$ 3,962,013	\$ 4,262,913		

LUCE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2007

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$1,868,193	\$ 646,999	\$ 676,581	\$3,191,773
Total Expenditures	1,659,418	885,701	521,639	3,066,758
Excess of Revenues Over (Under) Expenditures	208,775	(238,702)	154,942	125,015
Other Financing Sources (Uses)				
Optional Transfers	(119,645)	119,645		-
Interfund Adjustments		149,222	(149,222)	-
Total Other Financing Sources (Uses)	(119,645)	268,867	(149,222)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	89,130	30,165	5,720	125,015
Fund Balance--January 1, 2007	323,329	11,089	773,485	1,107,903
Fund Balance--December 31, 2007	\$ 412,459	\$ 41,254	\$ 779,205	\$1,232,918

LUCE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2007

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ 938	\$ 32	\$ 2,265	\$ 3,235
Federal Grants				
Surface Transportation Program	16,627			16,627
Railroad Crossing	23,389		-	23,389
Critical Bridge	303,497			303,497
State Grants				
Michigan Transportation Fund				
Engineering	7,200	2,800		10,000
Allocation	1,130,291	447,120		1,577,411
Snow Removal	123,737	48,120		171,857
Critical Bridge	56,905			56,905
Economic Development Funds				
Rural Primary D	4,487			4,487
Forest Funds (E)	144,326	69,957		214,283
State Railroad Crossing	23,389		-	23,389
Contributions--Local Units				
Townships		69,957		69,957
Charges for Services				
State Trunkline Maintenance			\$ 642,745	642,745
State Trunkline Non-Maintenance			7,607	7,607
Salvage and Material Sales		1,138		1,138
Interest and Rents				
Interest Earned	10,018	344	23,964	34,326
Other Revenue				
Contributions From Private Sources	23,389	-	-	23,389
Other	-	7,531	-	7,531
Total Revenue	\$ 1,868,193	\$ 646,999	\$ 676,581	\$ 3,191,773

LUCE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2007

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 27,222			\$ 27,222
Routine and Preventive Maintenance	973,402			973,402
Local Road				
Preservation/Structural Improvements		\$ 139,914		139,914
Routine and Preventive Maintenance		653,798		653,798
Primary Road Structures				
Preservation/Structural Improvements	441,009			441,009
Routine and Preventive Maintenance	5,552			5,552
Local Road Structures				
Routine and Preventive Maintenance		7,082		7,082
State Trunkline Maintenance			\$ 592,486	592,486
State Maintenance--Other			7,595	7,595
Equipment Expense--Net (Per Exhibit H)	35,231	28,107	21,885	85,223
Administrative Expense--Net (Per Exhibit H)	137,062	75,842		212,904
Capital Outlay--Net (Per Exhibit H)	(53,615)	(19,042)	(100,327)	(172,984)
Non Road Related Projects	93,555	-		93,555
Total Expenditures	\$ 1,659,418	\$ 885,701	\$ 521,639	\$ 3,066,758



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 13, 2008

Luce County Road Commission
Board of County Road Commissioners
P.O. Box 401
423 West McMillan Avenue
Newberry, Michigan 49868

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Luce County Road Commission, a component unit of Luce County as of and for the year ended December 31, 2007, and have issued our report thereon dated March 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Luce County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Luce County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Luce County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Luce County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

Luce County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Luce County Road Commission's internal control. We consider the deficiencies described in the accompanying Comments and Recommendations to be a significant deficiencies in internal control over financial reporting which is listed as findings 2007-1 and 2007-2.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Luce County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Luce County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Comments and Recommendations as Findings 2007-3 through 2007-4.

We also noted "Other Matters" that we reported to the management of Luce County Road Commission in the accompanying Comments and Recommendations as Finding 2007-5.

This report is intended solely for the information of the Luce County Board of County Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

LUCE COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Luce County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Luce County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. The Road Commission is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the deficiencies listed below. Significant deficiencies in the internal control and other matters which we have reported to the management of the Road Commission are as follows:

SIGNIFICANT DEFICIENCIES

Approval of Disbursements

Finding 2007-1

Condition: Invoices and other disbursements are paid and mailed before approval by the board of county road commissioners.

Criteria: All disbursements must be approved by the board of county road commissioners prior to disbursement. The board may establish a formal policy to authorize limited payments prior to approval to avoid finance and late charges as well as to pay appropriated amounts and payroll (including related payroll taxes and withholdings). These disbursements must still be approved after payment is made.

Recommendation: The board of county road commissioners must approve vouchers before checks are mailed.

Cash Collections and Receipting Process

Finding 2007-2

Condition: One person is primarily responsible for preparing receipts, posting receipts to the computer and making deposits with the county treasurer.

Criteria: Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

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SIGNIFICANT DEFICIENCIES (Continued)

Recommendation: Although there will always be a lack of segregation of duties, there can be other controls in place to reduce the weaknesses associated with the lack of segregation of duties. Another person could randomly compare the sequence of receipts with the computer generated receipts journal and the county treasurer's official receipt. There could be other controls that the Road Commission could implement as long as another person is involved within the process.

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

General Appropriations Act (Budgeting)

Finding 2007-3

Condition: During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital Outlay--Net	\$ (173,000)	\$ (172,984)	\$ (16)
Non Road Related Projects		93,555	(93,555)

Criteria: MCL 141.437 Section 17(1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal office provide it with periodic reports on the financial condition of the local unit."

MCL 141.439 Section 19(1) states: (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit. (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the Road Commission to comply with the above statutory budgeting requirements to develop budgetary control procedures, which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

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NONCOMPLIANCE WITH STATE STATUTES (Continued)

Credit Card Policy Purchases

Finding 2007-4

Condition: During our review of invoices, we noted several instances where there were violations to the County Credit Card Policy and State statutes (i.e., detailing the goods or services purchased, the official business for which the good or services were purchased and approval. The receipt should also indicate the employee(s) benefiting from the credit card purchase.)

Criteria: The Road Commission's credit card policy and MCL 129.243 states the following:

- a) An officer or employee designated by the credit card policy is responsible for the local unit's credit card issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) ...The credit card policy may limit the specific official business for which credit cards may be used.
- c) That an officer or employee using credit cards issued by the local unit shall submit to the local unit documentation described in the credit card policy detailing the goods or services purchased, the cost of the goods or services, the date of the purchase, and the official business for which purchased.
- d) For a system of internal accounting controls to monitor the use of credit cards issued by the local unit.
- e) For approval of the credit card invoices before payment.
- f) Any other matters the governing body considers advisable.

Recommendation: We recommend that the Road Commission adhere to the credit card policy and State statute when using credit cards.

OTHER MATTERS

Investment Policy--Investment Risk Assessments

Finding 2007-5

Condition: The Road Commission has not assessed investment risks as required by GASB Statement No. 40.

Criteria: The Governmental Accounting Standards Board adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004.

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OTHER MATTERS (Continued)

The GASB Statement No. 40 summary states, in part: “The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed.”

Recommendation: We recommend that the Road Commission contact the county treasurer’s office and formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy.